LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6277
BILL NUMBER: SB 316

NOTE PREPARED: Dec 31, 2005
BILL AMENDED:

SUBJECT: Steel Mill and Refinery Property Taxes.

FIRST AUTHOR: Sen. Mrvan
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill adjusts the annual depreciation percentages for the personal property tax valuation of special integrated steel mill and oil refinery/petrochemical equipment.

Effective Date: Upon passage; January 1, 2006 (retroactive).

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: Under current Department of Local Government Finance rules, most business personal property is valued according to a depreciation schedule as specified in the rule. Taxpayers list the cost of depreciable property in one of four "pools," depending on the declared useful life of the property. Each pool has a different set of depreciation rates for each year of age of the property. The cost of equipment is multiplied by the appropriate "percent good" factor in the depreciation schedule to produce the true tax value (TTV) of the equipment. The TTV of all of a taxpayer's depreciable property located in the same tax taxing district must be at least 30% of the total cost of the property. The rule allows for special valuation of special tooling and for an adjustment for abnormal obsolescence of the equipment.

Taxpayers who own integrated steel mill or oil refinery/petrochemical equipment may elect to use a fifth depreciation pool rather than the other four pools. The value of property in this pool is not subject to the 30%

floor. Integrated steel mill property is property used to produce steel from iron ore and other materials in a blast furnace located in Indiana. Oil refinery/petrochemical equipment is used to process at least 100,000 barrels of crude oil per day into various petroleum products.

This bill would increase all of the "percent good" factors in Pool 5 except for the first two years of an asset's life beginning with taxes paid in 2007. The table below summarizes the depreciation schedule under current law and under this proposal.

Personal Property Depreciation Schedule						
Pools For All Depreciable Property					**Optional Steel / Petro**	
	Pool 1	**Pool 2**	**Pool 3**	**Pool 4**	**Current Pool 5**	**Proposed Pool 5**
Age of Property	**1-4 Year Life**	**5-8 Year Life**	**9-12 Year Life**	**13+ Year Life**	**All**	**All**
Year 1	65%	40%	40%	40%	40%	40%
Year 2	50%	56%	60%	60%	56%	56%
Year 3	35%	42%	55%	63%	42%	46%
Year 4	20%	32%	45%	54%	32%	38%
Year 5	20%	24%	37%	46%	24%	32%
Year 6	20%	18%	30%	40%	18%	28%
Year 7	20%	15%	25%	34%	15%	25%
Year 8	20%	15%	20%	29%	10%	20%
Year 9	20%	15%	16%	25%	10%	20%
Year 10	20%	15%	12%	21%	10%	20%
Year 11	20%	15%	10%	15%	10%	20%
Year 12	20%	15%	10%	10%	10%	20%
Year 13+	20%	15%	10%	5%	10%	20%
Floor	Total value of Pools 1-4 must be at least 30% of total cost				No Floor	No Floor

This analysis illustrates the fiscal impact under the assumption that all taxpayers who have elected to use Pool5 in the past will continue the use of this pool. However, any number of these taxpayers could find it more advantageous to cease the Pool 5 election, list the property in the four regular pools, and then claim an adjustment for abnormal obsolescence. If this happens, then the bill might not result in the anticipated change in assessments. In the end, the true effect of this bill on assessments and tax shifts will depend on the actions of the taxpayers qualified to elect Pool 5, local officials' handling of any potential obsolescence claims, and any reviewing authority.

Based on property tax returns, levies, and rates for taxes payable in 2005, taxpayers in two counties, Lake and

Porter, could be affected by this bill.

It is estimated that this bill would have increased the AV of Pool 5 taxpayers by about $359 M AV in Lake County and $7 M AV in Porter County for taxes paid in CY 2005, for a total increase of $366 M AV.

The increase in AV would cause part of the property tax burden to shift from all taxpayers to the owners of the Pool 5 property. In 2005, the shift of gross taxes would have been estimated at $28.8 M in Lake County and $148,000 in Porter County.

In Lake County, the 2005 net tax reduction (after PTRC and Homestead Credit) would have been about $3.5 M for homesteads, $8.2 M for non-homestead real property, and $9.3 M for personal property.

In Porter County, the 2005 net tax reduction would have been about $35,000 for homesteads, $47,000 for non-homestead real property, and $11,000 for personal property.

Much of the above personal property net tax reduction is actually attributable to the Pool 5 taxpayers. This is because the tax rate would be reduced for all taxpayers, including those that use Pool 5. These taxpayers' total personal property bills would increase, but by a smaller amount than the total of the net tax shifts.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would increase by about $1.6 M in Lake County and $20,000 in Porter County.

The net tax shift estimates above assume full funding of PTRC and homestead credits. If the full cost of the credits exceeds the appropriation, then the credits would be reduced and the net tax reductions could vary.

This bill would also have an impact on any local homestead or residential property tax credits adopted by the county. If a county offers these credits, then the bill would reduce the cost of the local credits. To the extent that local credits are offered, the net tax shifts illustrated above would be smaller.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: Lake and Porter County assessors and auditors.

Information Sources: Property Tax Return Data; Local Government Database; County auditor abstracts.

Fiscal Analyst: Bob Sigalow, 317-232-9859.